 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY ANSWER SHEET**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SUBJECT** | **ECONOMICS** | **GRADE** | **12** | **DATE** | **14/05/2020** |
| **TOPIC** | **MICROECONOMICS MARKS: 40** | **TERM 1****REVISION** |  | **TERM 2 CONTENT** | **X** |

**QUESTION 1 MICROECONOMICS 40 MARKS – 40 MINUTES**

The existence and survival of any business depend on how they are conducting themselves.

* Compare the market structure of a monopoly with that of a perfect competitor. (26 marks)
* Draw a clearly labelled graph indicating the shut-down point for the perfect competitor. Briefly explain why a business will stop producing goods at this point. (10 marks)

 **(DBE/Feb-Mar 2016)**  **[40]**

 **INTRODUCTION**

* A perfect competitor has many sellers while a monopolist only has one seller √√

(Accept any other correct relevant introduction.) Max (2)

 **MAIN PART**

|  |  |  |
| --- | --- | --- |
|  | **Perfect Competitor** | **Monopoly** |
| Price: | * Price taker √√
* The market determines the price for the individual firm √√
 | * Is regarded as a price maker √√
* Have some control over price √√
* Prices not determined by market forces of supply and demand but by the business itself √√
 |
| Output: | * The demand curve for the perfect competitor is horizontal √√
 | * The demand curve for monopolist is downward sloping √√
 |
| Profit: | * The perfect competitor can realise economic profits in the short term √√
* Abnormal profits will attract new entrants into the market for both structures √√
* Both perfect and monopoly can only realise normal profits in the long term √√
* The price for the product for both market structures equals the average cost √√
* The perfect competitor does produce the ideal production quantity and has no surplus capacity √√
 | * The monopolist also realise economic profits in the short term √√
* The monopolist will charge a higher price than the perfect competitor √√
* The monopolist will not produce at the lowest point of the LAC, like the perfect competitor, the output will be less than the perfect competitor √√
* Both perfect and monopoly can only realise normal profits in the long term √√
* The monopolist's production will be less than the ideal production quantity where LAC is the minimum and has surplus capacity √√
 |
| Number of businesses | * So many that no single business can influence the market price √√
 | * One business √√
 |
| Nature of product | * Homogeneous e.g. maize √√
 | * Unique product without any close substitutes √√
 |
| Information | * Complete √√
 | * Complete √√
 |
| Entry | * Completely free √√
 | * Blocked √√
 |
| (Accept any other relevant fact)  |  **(Max. 26)**  |

(Accept essay format)

 

**Briefly explain why a business will stop producing goods at this point.**

* A firm will shut down if it cannot meet its average or total variable costs √√
* The firm will not produce here because AR < AVC √√
* The firm will not keep on producing from the shut-down point down because the firm cannot meet its operational cost √√
* Below the shut-down point, the firm will not sell any goods. A firm will sell goods if the price is above the shutdown price level (supply curve) √√

(Accept any correct relevant response.) **(Max 10)**

**CONCLUSION**

* Although it is not completely possible to compare the monopoly market with the free market, a comparison can give us insightful information about the profit maximising quantity and price √√

(Accept any other relevant conclusion.) Max (2) **[40]**